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# Fiscal News, January 2007

Maine State Legislature

Office of Fiscal and Program Review

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# FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

JANUARY 2007

## Volume 1, Number 1

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



## *Introduction – Inaugural Issue of the Fiscal News*

This is the first issue of the *FISCAL NEWS*, a monthly newsletter published by the Office of Fiscal and Program Review (OFPR), a nonpartisan staff office of the Legislative Council. This newsletter is an extension of the monthly fiscal briefings OFPR's Director has provided to the Legislative Council, which are then shared with the Joint Standing Committee on Appropriations and Financial Affairs. Our goal is to provide information to all legislators about the important fiscal issues happening each month. This issue includes the usual update of General Fund and Highway Fund revenue and the State's cash position. Future issues will include additional articles providing updates of any expenditure/program funding issues, economic data releases and a notice of fiscal data and publications released during the month. We hope you find this newsletter useful and informative. As always, we appreciate your questions, comments and feedback.

## *General Fund and Highway Fund Revenue Update*

General Fund revenue was under budget by \$11.1 million in December, resulting in a negative variance of \$9.0 million (-0.7%) for the first half of fiscal year 2007. This variance is from the revised December 2006 revenue forecast, which increased General Fund revenue by \$86.4 million for this current fiscal year. This negative variance was driven by December's Corporate Income Tax collections, which were under budget by \$16.9 million for the month and for the fiscal year-to-date. Maine's experience in this area differs substantially from the federal experience and many other states' experiences. As yet, no good explanation for this negative variance is available. There was some hope that this was a timing issue and that January collections would offset some of this negative variance; however, a preliminary look at January collections indicates that this variance will not be reversed and may even worsen.

With the exception of Corporate Income Tax collections, the other revenue categories are tracking well with the revised forecast and are over budget by \$7.9 million in aggregate for the first half of the fiscal year.

Highway Fund revenue, with the downward revision of fiscal year 2007 revenue by \$9.6 million in the December 2006 revenue forecast, is now performing much closer to budget.



## Economic and Revenue Forecast Update

The Consensus Economic Forecasting Commission (CEFC) met on Tuesday, January 23<sup>rd</sup> to begin the winter update of the revenue forecast. This group of 5 “outside” individuals with expertise in economic forecasting has 2 reporting dates each year, November 1<sup>st</sup> and February 1<sup>st</sup>. These dates are one month in advance of the Revenue Forecasting Committee’s reporting dates of December 1<sup>st</sup> and March 1<sup>st</sup>. This CEFC provides the forecast of key economic variables that are used by Maine Revenue Services to help the Revenue Forecasting Committee forecast the major tax lines.

While the economic forecast is still going through some refinement, the CEFC’s forecast of the major economic variables of employment and personal income will show modest improvement in the short-term compared to their prior forecast. The CEFC also lowered its forecast of inflation.

The Revenue Forecasting Committee will meet in the later part of February to provide an update of the revenue forecast. This update will include a look at the effect of the modest improvement to the economic forecast on the major tax lines and a struggle to find an explanation for the poor performance of Corporate Income Tax collections during December and January of this fiscal year.

See the following web site for information about the Revenue Forecasting Committee: <http://www.maine.gov/legis/ofpr/rfcmain.htm>

## Cash Balances Update

The State Treasurer is responsible for managing and investing the State’s cash balances. Other independent agencies also invest and “pool” their excess cash with the State Treasurer to earn a better return on short-term investments. The average return on the Cash Pool in December 2006 was 5.88%.

The table below presents a summary of the average balances in the Cash Pool in December 2006. The Cash Pool balance has dropped from \$689.3 million in July 2006 to \$494.8 million in December. Last December’s average balance was \$520.5 million, but that amount included \$123.6 million of Tax Anticipation Note (TAN) borrowing. The recent decline is largely due to the General Fund’s reliance on internal borrowing from Other Special Revenue Funds rather than TAN borrowing. That internal borrowing increased to over \$100 million in December.

At this point, the State Treasurer and the State Controller still hope to avoid a formal TAN borrowing for this fiscal year.

Highway Fund Cash balances have continued their downward trend. This has been driven by the funding pressures of the Highway and Bridge Improvement program within the Department of Transportation. The Highway Fund average cash balance in December was only \$8.7 million. The balance should recover during the winter months before the spring construction season begins.

### Summary of Treasurer's Cash Pool

#### December 2006 Average Daily Balances

##### Millions of \$'s

General Fund (GF) Total	\$13.1
General Fund (GF) Detail:	
Budget Stabilization Fund	\$111.2
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$104.3
Other General Fund Cash	(\$243.0)
Other Special Rev. - Interest to GF	\$64.3
Other State Funds - Interest to GF	\$11.4
Highway Fund	\$8.7
Other Spec. Rev. - Retaining Interest	\$59.7
Other State Funds	\$217.8
Independent Agency Funds	\$120.0
<b>Total Cash Pool</b>	<b>\$494.8</b>

(Amounts may not add due to rounding)

**General Fund and Highway Fund Revenue**  
**Fiscal Year Ending June 30, 2007**  
**Reflecting December 2006 RFC Adjustments AND Enacted Laws Through the 122nd Legislature**

**DECEMBER 2006 REVENUE VARIANCE REPORT**

Revenue Line	December '06 Budget	December '06 Actual	December '06 Variance	FY07 YTD Budget	FY07 YTD Actual	FY07 YTD Variance	FY07 YTD Variance %	FY07 Budgeted Totals
<b>General Fund</b>								
Sales and Use Tax	73,681,497	74,483,126.33	801,629.33	433,403,117	434,204,745.64	801,628.64	0.2%	974,740,367
Service Provider Tax	5,104,173	3,907,808.06	(1,196,364.94)	19,298,875	19,899,748.03	600,873.03	3.1%	48,911,765
Individual Income Tax	111,490,000	113,280,029.19	1,790,029.19	550,020,057	552,157,576.91	2,137,519.91	0.4%	1,333,572,271
Corporate Income Tax	44,000,000	27,088,752.75	(16,911,247.25)	89,613,414	72,702,166.48	(16,911,247.52)	-18.9%	199,210,000
Cigarette and Tobacco Tax	13,225,338	12,011,984.75	(1,213,353.25)	85,609,538	84,624,488.38	(985,049.62)	-1.2%	164,502,981
Public Utilities Tax	0	0.00	0.00	0	(116,564.00)	(116,564.00)	N/A	19,695,000
Insurance Companies Tax	14,202	(85,128.17)	(99,330.17)	11,490,262	11,536,110.23	45,848.23	0.4%	76,336,389
Estate Tax	3,505,457	8,344,055.43	4,838,598.43	24,421,842	27,246,546.26	2,824,704.26	11.6%	52,465,498
Property Tax - Unorganized Territory	0	0.00	0.00	10,150,628	10,403,375.00	252,747.00	2.5%	11,597,312
Income from Investments	338,950	(67,360.99)	(406,310.99)	2,216,570	1,852,341.21	(364,228.79)	-16.4%	4,565,000
Transfer to Municipal Revenue Sharing	(11,948,058)	(11,156,737.17)	791,320.83	(55,709,105)	(55,027,176.09)	681,928.91	1.2%	(130,378,153)
Transfer from Lottery Commission	4,748,533	3,726,902.15	(1,021,630.85)	25,642,080	25,650,002.45	7,922.45	0.0%	50,334,250
Other Revenue	15,071,445	16,598,177.03	1,526,732.03	94,275,288	96,283,401.33	2,008,113.33	2.1%	215,055,030
<b>Totals</b>	<b>259,231,537</b>	<b>248,131,609.36</b>	<b>(11,099,927.64)</b>	<b>1,290,432,566</b>	<b>1,281,416,761.83</b>	<b>(9,015,804.17)</b>	<b>-0.7%</b>	<b>3,020,607,710</b>
<b>Highway Fund</b>								
Fuel Taxes	18,746,621	19,046,304.66	299,683.66	97,773,223	98,323,156.04	549,933.04	0.6%	227,484,941
Motor Vehicle Registration and Fees	6,278,450	6,125,809.18	(152,640.82)	39,637,795	39,671,640.89	33,845.89	0.1%	86,476,317
Inspection Fees	528,787	583,803.30	55,016.30	2,480,752	2,467,490.62	(13,261.38)	-0.5%	4,379,756
Fines	159,018	135,332.37	(23,685.63)	999,890	898,260.82	(101,629.18)	-10.2%	2,018,239
Income from Investments	80,000	49,043.32	(30,956.68)	456,643	425,656.53	(30,986.47)	-6.8%	795,000
Other Revenue	615,117	537,915.24	(77,201.76)	5,905,106	5,681,529.35	(223,576.65)	-3.8%	9,603,076
<b>Totals</b>	<b>26,407,993</b>	<b>26,478,208.07</b>	<b>70,215.07</b>	<b>147,253,409</b>	<b>147,467,734.25</b>	<b>214,325.25</b>	<b>0.1%</b>	<b>330,757,329</b>

## Comparison of Actual Fiscal Year-to-Date Revenue Through December of Each Fiscal Year

REVENUE CATEGORY	FY 2003	% Chg	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg
<b>GENERAL FUND</b>										
Sales and Use Tax	\$379,697,840.85	2.3%	\$408,189,897.08	7.5%	\$405,149,718.96	3.8%	\$418,714,548.29	3.3%	\$434,204,745.64	3.7%
Service Provider Tax	\$0.00	100.0%	\$0.00	N/A	\$18,525,818.29	N/A	\$18,622,863.08	0.5%	\$19,899,748.03	6.9%
Individual Income Tax	\$495,099,793.63	3.7%	\$524,838,576.81	6.0%	\$566,624,897.95	8.0%	\$601,139,418.04	6.1%	\$627,282,395.89	4.3%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	\$0.00	N/A	(\$22,648,007.38)	N/A	(\$33,646,723.94)	-48.6%	(\$35,480,955.57)	-5.5%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	(\$44,201,072.58)	N/A	(\$39,643,863.41)	10.3%
Corporate Income Tax	\$39,381,709.06	4.8%	\$46,599,878.38	18.3%	\$60,725,525.27	30.3%	\$90,767,543.44	49.5%	\$72,702,166.48	-19.9%
Cigarette and Tobacco Tax	\$51,483,852.29	8.1%	\$50,662,442.32	-1.6%	\$49,996,215.75	-1.3%	\$76,821,990.42	53.7%	\$84,624,488.38	10.2%
Public Utilities Tax	(\$142,550.93)	-367.7%	(\$293,687.83)	-106.0%	(\$167,633.34)	42.9%	\$0.00	100.0%	(\$116,564.00)	N/A
Insurance Companies Tax	\$11,459,764.12	28.2%	\$12,855,317.23	12.2%	\$15,059,488.32	17.1%	\$11,885,217.41	-21.1%	\$11,536,110.23	-2.9%
Estate Tax	\$9,545,530.10	129.4%	\$10,531,610.72	10.3%	\$15,636,391.40	48.5%	\$47,701,811.13	205.1%	\$27,246,546.26	-42.9%
Property Tax - Unorganized Territory	\$9,300,585.00	5.4%	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%
Income from Investments	\$1,420,103.60	-45.9%	\$1,014,749.57	-28.5%	\$1,907,749.24	88.0%	\$2,918,778.76	53.0%	\$1,852,341.21	-36.5%
Revenue Sharing Transfers	(\$46,623,146.51)	-3.2%	(\$49,961,045.98)	-7.2%	(\$52,447,275.59)	-5.0%	(\$53,621,225.39)	-2.2%	(\$55,027,176.09)	-2.6%
Liquor Transfers	\$14,381,200.51	3.2%	\$14,837,299.16	3.2%	\$50,013,353.52	237.1%	\$11,850.00	-100.0%	\$11,671.36	-1.5%
Lottery Transfers	\$19,471,130.04	-4.4%	\$20,950,501.64	7.6%	\$24,607,810.77	17.5%	\$25,453,919.23	3.4%	\$25,650,002.45	0.8%
Other Revenue	\$71,512,344.83	7.0%	\$90,565,384.89	26.6%	\$94,430,523.25	4.3%	\$91,020,216.16	-3.6%	\$96,271,729.97	5.8%
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,055,988,156.59</b>	<b>4.1%</b>	<b>\$1,139,728,015.99</b>	<b>7.9%</b>	<b>\$1,237,052,953.41</b>	<b>8.5%</b>	<b>\$1,263,149,533.05</b>	<b>2.1%</b>	<b>\$1,281,416,761.83</b>	<b>1.4%</b>
<b>HIGHWAY FUND</b>										
Fuel Taxes	\$80,901,557.03	2.9%	\$92,886,837.98	14.8%	\$98,054,337.80	5.6%	\$96,743,673.36	-1.3%	\$98,323,156.04	1.6%
Motor Vehicle Registration and Fees	\$36,707,455.08	-1.8%	\$36,775,727.29	0.2%	\$37,505,170.83	2.0%	\$40,237,605.78	7.3%	\$39,671,640.89	-1.4%
Inspection Fees	\$2,290,846.81	99.0%	\$2,144,487.68	-6.4%	\$2,380,476.76	11.0%	\$2,459,568.89	3.3%	\$2,467,490.62	0.3%
Fines	\$1,246,156.01	26.7%	\$939,306.68	-24.6%	\$886,896.79	-5.6%	\$922,398.97	4.0%	\$898,260.82	-2.6%
Income from Investments	\$665,750.98	-51.0%	\$256,310.33	-61.5%	\$380,400.69	48.4%	\$865,591.55	127.5%	\$425,656.53	-50.8%
Other Revenue	\$5,352,846.43	94.6%	\$5,275,722.94	-1.4%	\$5,059,588.10	-4.1%	\$5,743,458.79	13.5%	\$5,681,529.35	-1.1%
<b>TOTAL HIGHWAY FUND REVENUE</b>	<b>\$127,164,612.34</b>	<b>4.0%</b>	<b>\$138,278,392.90</b>	<b>8.7%</b>	<b>\$144,266,870.97</b>	<b>4.3%</b>	<b>\$146,972,297.34</b>	<b>1.9%</b>	<b>\$147,467,734.25</b>	<b>0.3%</b>

Adjusted for Service Provider Tax Split